



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0313	Title:	Revise education laws
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Primary Sponsor:	McClafferty, Edith (Edie)	Status:	As Introduced
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| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input checked="" type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$21,867,978	\$40,391,271	\$40,423,314	\$40,799,051
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$4,900,000	\$8,100,000	\$8,100,000	\$8,100,000
Net Impact-General Fund Balance:	<u>(\$21,867,978)</u>	<u>(\$40,391,271)</u>	<u>(\$40,423,314)</u>	<u>(\$40,799,051)</u>

Description of fiscal impact: HB 313 proposes to include enrolled students 19 years of age or older in the calculation of ANB; raising the legal dropout age to 18 or upon graduation; applies the statutory language for inflationary increases of 2.33% in FY 2016 and 1.79% in FY 2017 to the basic entitlement, per-ANB entitlement, quality educator payment, the Indian education for all payment, the American Indian achievement gap payment, and the data for achievement payment; redirects the natural resources development K-12 funding payment to the school facility and technology state special revenue account; and increases bonding limitations for school districts. This will increase funding to schools by approximately \$75.3 million for the 2017 biennium. These increases for K-12 funding are all included in the Executive Budget.

FISCAL ANALYSIS

Assumptions:

1. The average number belonging (ANB) used to determine the general fund budgets for K-12 public schools will be as follows. These estimates are for current year ANB, which is used to calculate the budgeted ANB as determined by 20-9-311(13) and (14), MCA.

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
K-6 ANB	82,917	83,643	84,131	84,689	84,954
7-8 ANB	22,167	22,239	22,452	22,695	23,276
9-12 ANB	<u>43,189</u>	<u>43,253</u>	<u>43,390</u>	<u>43,582</u>	<u>44,164</u>
	148,273	149,135	149,973	150,966	152,394

2. The number of FTE (including special education cooperatives) generating the quality educator payment is estimated to be:

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
School Districts	12,190.893	12,190.893	12,190.893	12,190.893	12,190.893
Special Ed Coops	<u>174,572</u>	<u>174,572</u>	<u>174,572</u>	<u>174,572</u>	<u>174,572</u>
Total FTE	12,365.465	12,365.465	12,365.465	12,365.465	12,365.465

3. The present law inflation applied to the Basic and Per-ANB Entitlements, and the Quality Educator, Indian Education for All, American Indian Achievement Gap, Data for Achievement, and the At Risk Components (20-9-326, MCA) is 2.33% in FY 2016 and 1.79 % in FY 2017. For the present law budget, entitlement and component is set as follows:

<u>Basic Entitlements</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Elementary Basic	\$40,000	\$50,000	\$50,895	\$51,526	\$52,093
Middle School Basic	\$80,000	\$100,000	\$101,790	\$103,052	\$104,186
High School Basic	\$290,000	\$300,000	\$305,370	\$309,157	\$312,558

Basic Entitlement Increments

Elementary (Each 25 ANB > 250 ANB)	\$2,000	\$2,500	\$2,545	\$2,576	\$2,605
Middle School (Each 45 ANB > 450 ANB)	\$4,000	\$5,000	\$5,090	\$5,153	\$5,209
High School (Each 80 ANB past 800 ANB)	\$12,000	\$15,000	\$15,269	\$15,458	\$15,628

Per ANB Entitlements

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Elementary Per-ANB	\$5,226	\$5,348	\$5,444	\$5,512	\$5,573
High School Per-ANB	\$6,691	\$6,847	\$6,970	\$7,056	\$7,134
Direct State Aid (DSA) Percentage	44.7%	44.7%	44.7%	44.7%	44.7%

Components

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Indian Education for All	\$20.40	\$20.88	\$21.25	\$21.51	\$21.75
Indian Achievement Gap	\$200	\$205	\$209	\$212	\$214
Quality Educator	\$3,042	\$3,113	\$3,169	\$3,208	\$3,243
At Risk	\$5,149,426	\$5,269,408	\$5,363,730	\$5,430,240	\$5,489,973
Data for Achievement	\$15.00	\$20.00	\$20.36	\$20.61	\$20.84

4. Present law (20-9-326, MCA) requires the Governor to include inflationary adjustments for the basic and per-ANB entitlements, and the Quality Educator, Indian Education for All, American Indian Achievement Gap, Data for Achievement, and the At Risk Components in the recommendations presented to the legislature. These present law adjustments result in the following expenditures:

<u>Payment</u>	<u>FY 2016</u>	<u>FY 2017</u>
Direct State Aid	\$435.3 million	\$443.9 million
Guaranteed Tax Base Aid	\$158.9 million	\$160.9 million
County Retirement GTB	\$37.5 million	\$38.7 million

Indian Education For All	\$3.1 million	\$3.2 million
American Indian Achievement Gap	\$4.0 million	\$4.0 million
Quality Educator	\$38.5 million	\$39.2 million
Data for Achievement	\$3.0 million	\$3.0 million

5. HB 313 changes statute to accommodate the present law adjustments for inflation to the basic and per-ANB entitlements. The Executive Budget includes a general fund increase of \$14.3 million in FY 2016 and \$26.6 million in FY 2017 to implement the inflation requirement.
6. Direct State Aid, GTB and other general fund components are computed with the school funding model used by the Office of Public Instruction, the Legislative Fiscal Division and the Office of Budget and Program Planning using current statutory entitlements, enrollment estimates, and estimated property tax values.
7. The Natural Resources Development payment is estimated to be \$4.9 million in FY 2016 and \$8.1 million in FY 2017 with offsetting GTB savings of \$2.3 million in FY 2016 and \$3.7 million in FY 2017.
8. The state special education allowable cost payment remains at the FY 2015 level of \$42.8 million per year.
9. The statewide taxable valuations are forecast to increase by 1.20% in FY 2016 and 3.30% in FY 2017.
10. Section 1 of HB 313 redefines “Pupil” for the purpose of calculating the average number belonging (ANB) to include students 19 years of age or older admitted to a school at the discretion of school district trustees effective July 1, 2016.
11. School districts currently report enrollment for all students, including those who are 19 years of age or older. For the 2013-2014 school year, schools reported 78 students in October, 72 students in December and 64 students in February who were 19 years of age or older. These enrollments generate 75 additional high school ANB when included in the calculation of average number belonging.
12. The students who are 19 years of age and older in the 2015-16 school year would generate additional ANB beginning in FY 2017. OPI estimates that current year ANB will increase by 75 ANB in FY 2017.
13. OPI estimates that the additional ANB will increase state support for schools by increasing DSA, GTB, the Indian education for all payment, and the data for achievement payment costing \$353,700 per year.
14. OPI anticipates that a small number of the 19 year olds will be American Indian and will generate the American Indian Achievement Gap payment. The cost associated with this payment will be minimal.
15. Under current law, a child must be enrolled in school until the latter of the child's 16th birthday or the date of completion of the eighth grade. HB 313 raises the age of compulsory enrollment to the earliest of the child's 18th birthday, the date of completion of high school graduation requirements, or the date of satisfying the requirements for equivalency of completion of secondary education as provide in 20-7-131, MCA.
16. In the 2012-13 school year, a total of 1577 students in grades 7-12 dropped out of school. Of this total, 949 of the students who dropped out were 16 or 17 years of age and attending public schools.
17. For the purpose of this fiscal note, it is assumed that 20% of these students would stay in school until the age of 18 or graduation from high school. The retention of these 190 students (949 X 20%) in public schools will increase current year ANB by 197 in FY 2017. (949 X 20% X 187 / 180). The budget limit ANB is projected to increase by 214 in FY 2017.
18. OPI estimates that 20% of the students that stay in school will be American Indian (39 students in total). The retention of these students will increase the cost of the American Indian Achievement Gap Payment.
19. OPI does not anticipate school districts will need to increase their teaching staff to teach the additional 190 students that remain in high schools across the state.
20. HB 313 redirects the natural resource development K-12 funding payment to the state special revenue school facility and technology account. This payment would direct \$13 million to the school facility and technology account in the 2017 biennium.

Montana School for the Deaf and Blind, Department of Corrections, and Department of Military Affairs

21. HB 313 includes an inflationary increase to the quality educator payments defined in 20-9-327, MCA. That statute includes the Montana School for the Deaf and Blind (MSDB), state youth correctional facilities, and the Montana Youth Challenge program to receive quality educator payments. The following table shows the increase from the current law amount of \$3,042 per qualified FTE plus applicable retirement.

	FTE	FY 2016	FY 2017	FY 2018	FY 2019
Quality Educator Pmt/FTE		\$3,113	\$3,169	\$3,169	\$3,169
MSDB	25.4	\$2,074	\$3,710	\$3,710	\$3,710
Corrections	19.3	\$1,576	\$2,819	\$2,819	\$2,819
Military Affairs	5.0	<u>\$408</u>	<u>\$730</u>	<u>\$730</u>	<u>\$730</u>
		\$4,058	\$7,259	\$7,259	\$7,259

Secretary of State

22. This bill will have minimal cost for postage and administrative duties related to tribal notifications in Section 15 of the bill. The Office of the Secretary of State does not receive general fund monies for office operations, but has agreed to assume the fiscal responsibility for this bill.

<u>Fiscal Impact:</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<u>Expenditures:</u>				
Personal Svcs (MSDB, Military, Corrections)	\$4,058	\$7,259	\$7,259	\$7,259
Local Assistance (DSA)	\$9,163,709	\$18,045,003	\$18,100,704	\$18,288,247
Local Assistance (GTB)	\$6,568,454	\$12,101,582	\$12,070,938	\$12,250,979
Local Assistance (Indian Ed for All)	\$71,843	\$133,589	\$134,249	\$135,530
Local Assistance (Achievement Gap)	\$96,990	\$182,733	\$182,850	\$182,928
Local Assistance (Quality Educator)	\$877,948	\$1,570,414	\$1,570,414	\$1,570,414
Local Assistance (Data for Achieve)	\$0	\$59,874	\$60,057	\$60,635
Local Assistance (Retirement GTB)	\$184,976	\$190,817	\$196,843	\$203,059
Grants (Natural Resource Dev)	<u>\$4,900,000</u>	<u>\$8,100,000</u>	<u>\$8,100,000</u>	<u>\$8,100,000</u>
TOTAL Expenditures	<u><u>\$21,867,978</u></u>	<u><u>\$40,391,271</u></u>	<u><u>\$40,423,314</u></u>	<u><u>\$40,799,051</u></u>

Funding of Expenditures:

General Fund (01)	\$21,867,978	\$40,391,271	\$40,423,314	\$40,799,051
State Special Revenue (02)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
TOTAL Funding of Exp.	<u><u>\$21,867,978</u></u>	<u><u>\$40,391,271</u></u>	<u><u>\$40,423,314</u></u>	<u><u>\$40,799,051</u></u>

Revenues:

General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	<u>\$4,900,000</u>	<u>\$8,100,000</u>	<u>\$8,100,000</u>	<u>\$8,100,000</u>
TOTAL Revenues	<u><u>\$4,900,000</u></u>	<u><u>\$8,100,000</u></u>	<u><u>\$8,100,000</u></u>	<u><u>\$8,100,000</u></u>

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	(\$21,867,978)	(\$40,391,271)	(\$40,423,314)	(\$40,799,051)
State Special Revenue (02)	\$4,900,000	\$8,100,000	\$8,100,000	\$8,100,000

Effect on County or Other Local Revenues or Expenditures:

1. There is no county fiscal impact from HB 313.
2. Increases to school district BASE budgets are shared by the state and local taxpayers. The increased ANB as a result of more students staying in school because of the change in dropout age could mean an increase in district BASE budget levies.
3. Redirecting the natural resource development K-12 payment could have a \$2.2 million local tax impact in FY 2016 and a \$3.7 million local tax impact in FY 2017.
4. Sections 8 and 9 of HB 313 allow school district to increase debt limits. There is no state fiscal impact to these sections of the bill, but allowing districts to bond at higher limits could mean voters could elect to tax themselves at higher levels.

Sponsor's Initials

Date

Budget Director's Initials

Date